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ADDRESS BY THE HONORABLE DOUGLAS MacARTHUR II
UNITED STATES AMBASSADOR TO BELGIUM
AT THE ANNUAL FORECASTING CONFERENCE OF THE
PHILADELPHIA CHAMBER OF COMMERCE
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United States Trade Relations with the New Europe
The Challenge and the Opportunities

I

Introduction

It is a pleasure and an honor to participate in this Annual Forecasting Conference of the Philadelphia Chamber of Commerce. I say this because the Philadelphia Chamber has won deserved and widespread recognition as a vigorous and forward-looking organization which through this Annual Conference, is making a great contribution to the development of sound future American economic and industrial thought and action.

I have been asked to talk today about United States trade relations with the New Europe, particularly about the challenge and opportunities that the New Europe poses for us. This subject seems most appropriate because the great postwar movement toward European unity is one of the most exciting and far-reaching developments that has occurred for centuries. Indeed, the creation of this great new European entity has been likened in its potential importance and long-term implications to the discovery of the New World in 1492. In any event, it will vitally affect not only Europeans and Americans, but indeed, peoples in every corner of the world.

While the European unification movement involves both political and economic aspects, this morning I will confine myself largely to the European Economic Community.

When the Treaty of Rome was signed in 1957 and the Common Market for which it provided came into being in 1958, there were some who believed it would not amount to very much but they were proven dramatically wrong. For since the Common Market got under way, the level of industrial activities of its members has continued to advance at the very high rate of some 6% per year, whereas the progress in other European countries, such as Britain and the Scandinavian countries and indeed that of the United States, has been only about half as great.

II

The Common Market's Challenge

The great challenge of the Common Market and its future impact on our own prosperity and well-being are underlined by the following facts:

(1) During

(1) During the period 1957-1961, the annual gross national product of the Common Market countries increased at the very high rate of almost 22%, whereas the gross national product of the United States increased by only about 10%.

(2) The Common Market has great industrial strength that is increasing. In 1961, its steel production was over 80% that of the United States and well ahead of the Soviet Union. Should Britain join the Common Market, it will be the world's greatest steel producer. Furthermore, Common Market productivity is increasing at a rate of almost twice that of the United States, and in automobiles, transport equipment, machinery, chemicals, steel products and a host of other manufactures, it is giving us hard competition in world markets.

(3) With this great surge of economic activity, real wages and purchasing power in the Common Market are steadily rising. During the period 1953-1962, consumption expenditures per person increased almost 40% in the Common Market countries compared with about 18% in the United States. While those countries started from a lower base and their standards of living are still lower than ours, it is clear that wages, standards of living and consumption will grow toward those of the United States. Already automobiles, television sets, fridges and other such consumer's durables are within reach of the Common Market workers. Indeed there is every indication that the population of the Common Market is on the road toward the kind of consumer expansion experienced in the United States during the last 40 years.

(4) This dramatic increase of the Common Market's economic activity has been accompanied by a very substantial increase in foreign trade and especially trade between the members:

(a) Total foreign trade of the six Common Market members with all countries increased from about \$43 billion in 1956, just before formation of the Common Market, to about \$64 billion in 1961, a tremendous 48%.

(b) Trade between the six members of the Common Market increased during that same period from \$12.7 billion to \$23.7 billion, an incredible 85%. Although both of these increases are important, the latter is particularly significant as it reflects the development of closer trading ties among the six Common Market countries as tariff barriers on industrial products have been halved since 1958 and the duty on agricultural commodities lowered by 35%.

(5) The six Common Market nations already have a population of over 170 million. Should the negotiations with Britain and the subsequent negotiations with Denmark, Ireland, and Norway succeed, it will have a population of almost 250 million, as contrasted with our 186 million.

(6) It has a much greater pool of scientific and technological skills and knowledge than we that will increasingly be applied to industrial advances and improved products.

(7) The Common Market is already the greatest single international trading bloc in the world. In 1961, the six Common Market countries, without Britain, had imports of about \$32 billion and exports of almost the same amount, for an overall trade total of about \$64 billion. In comparison our own total foreign trade amounts to roughly \$37 billion, consisting of \$21 billion of exports and \$16 billion of imports.

III

The Opportunities

Although the challenge of the Common Market is great, the opportunities are equally great. It is a market where American products, both industrial and agricultural, are well and favorably known. Today our exports to the Common Market are fifty percent greater than our imports from it. It is a market with a rapidly expanding population. It is a market where real wages are rising rapidly. This will not only improve our competitive position but result in greatly increased consumption from which we should benefit.

Indeed, the European market offers a vast potential for growth and is the kind of market best suited for our production system. European industrialists have been accustomed to selling their products in small national markets and have built their industrial plants with that in mind. We, on the other hand, have fully developed the techniques of mass production, for we have had a great mass market open to us. If we can maintain our access to the European market, we should find new trading opportunities not dreamed of a few years ago.

On the other hand, if we cannot continue to sell an important part of our industrial and agricultural production to the Common Market, we will be in deep trouble. This is true because our exports to all of Western Europe, of which the Common Market is the heart, amount to almost \$7 billion or over 30% of our total exports, of which about \$2.2 billion are farm products and over \$4 billion are industrial products.

IV

How Do We Maintain Access to the Common Market?

How then do we maintain and expand our access to this great new European market on which our own economy and the prosperity and well-being of the American people so largely depend?

There is no quick or easy answer. Our continuing access to the European market depends on a number of factors but principally on what our Government does and on the attitudes and actions of two other principal sectors of our national life--1) American labor and 2) American business.

I would, therefore, like to outline, as I see it, the inter-related responsibilities and roles of 1) the United States Government, 2) American labor and 3) American business and industry in meeting the challenge.

V

The Role of the United States Government

First a word about the Government's responsibility. While the tariff barriers between the Common Market members are disappearing, a common external tariff wall is being maintained around the Common Market which will make it progressively more difficult for American products to enter this market. The United States Government must negotiate downward these tariff barriers and other protective devices which the Common Market may apply against imports of American products to the point where American goods can continue to flow into the Common Market.

As a result of Congressional passage of President Kennedy's trade expansion legislation, we now have the necessary tools to conduct meaningful tariff negotiations. But let me emphasize most emphatically that while in these negotiations we hold very good cards -- Europe needs a prosperous and strong America and also needs our market as much as we need hers -- we do not hold all the cards.

Some Americans today do not realize that our own relative strength and position in the world have vastly changed since the period following World War II. The unbalanced, and indeed unhealthy, post-war situation where we alone in the Free World had any real economic and financial strength and power is gone for good. Today in Europe we have a strong partner with great and increasing economic, financial and industrial power. In our tariff negotiations with this strong New Europe we will have to make concessions to gain concessions.

Our Government must conduct these negotiations not just on a basis of narrow limited industrial interests but in a way to safeguard American industry and agriculture as a whole. It is inevitable that some of our enterprises will encounter difficulties as a result of reductions that we will be obliged to make in our tariffs in order to obtain concessions for our exports to Europe. However, there are important safeguards in the President's program, including governmental assistance to businesses suffering hardships as a result of tariff reductions and import competition. And, of course, our nation as a whole stands to benefit infinitely more from expanded exports than from a restrictive protectionist policy that eventually could only lead to reduced economic activity with all the consequences that would entail.

There are, of course, some sincere people who think that the answer to the challenge we face in the field of international trade lies in protectionism. I would reply that if the United States adopts a policy of trade protectionism, we can expect our friends to reciprocate. As the President said in his February 6, 1961, message to Congress: "A return to protectionism is not a solution. Such a course would provoke retaliation and the balance of trade, which is now substantially in our favor, could be turned against us with disastrous effect to the dollar." Furthermore, such retaliation could be applied not only against industrial commodities, but also against American agriculture that is such an essential part of our economy.

Our Government also has the responsibility to see that our trade policy serves the vital international interests of the American people. President Kennedy's trade expansion program is designed to this end. Based on liberal trade policies, we seek to expand world trade and preserve the interests of the United States in a worldwide trading context that goes far beyond Europe and the United States. For we must also think of the problems of our friends in Latin America, Asia, the Middle East and Africa. Our aim is that the benefits of lower American and European tariffs, through the most favored nation principle, will also benefit countries elsewhere in the world. In other words, we seek to establish a pattern of international trade and economic relations that will help to unify and bring the Free World together rather than as the Communists hope, let trade become a terrible divisive force that tears free nations apart and ultimately weakens us all for a Communist take-over.

The United States Government also has the obligation to assist American businessmen engaged in foreign operations. I must frankly

confess

confess that I do not believe that in the past our Government's services have always done as much as they could to help American business abroad. However, in the last two years a series of steps have been taken to strengthen government support for American business abroad. Insofar as the State Department is concerned, Secretary Rusk and Under Secretary Ball have personally given much time to improve the backstopping that the State Department, our Embassies, and Foreign Service give to American businessmen. I know that in my own case, roughly 65% of my time, first in Japan and now in Belgium, is spent on economic and trade problems affecting American business. We hope that many more American businessmen will avail themselves of the services we offer for we can help in many ways.

So much for our Government's basic responsibilities to develop a sound national and international trade policy, to assist American business abroad and negotiate downward the external tariff wall which surrounds the Common Market. But even if we succeeded in negotiating the tariff wall down to zero, American goods will not sell in world markets 1) unless they are competitive with European and other products in terms of price and quality, and 2) unless a more imaginative and effective effort is made to sell our wares abroad. This is where the role and responsibility of American labor and business come into the picture.

VI

American Labor - Its Task and Responsibility

Insofar as labor is concerned, it seems evident that if we are to continue to sell our products, we cannot afford wage-price spirals that price our goods out of world markets. As European industries in Common Market countries merge or in other ways expand their production to supply the great Common Market, their unit production costs will fall, making price competition tougher than ever for us. Therefore, if we are to continue to sell our products at competitive prices, our wage increases will in general have to be absorbed by increased productivity rather than by higher prices.

And, of course, the entire increase in productivity cannot be devoted to wage increases. It is essential that a part be reserved to business and industry for research and plant modernization programs that are also essential elements in our ability to compete in world markets.

Labor also has the obligation to continue to see that the workmanship that goes into our fine products is of the highest caliber. For shoddy workmanship will result in either products that cannot compete quality-wise or in increased production costs because of too large a percentage of rejections by American industry's fine quality control programs.

VII

The Obligations and Contributions of American Business

Finally, what is the role and responsibility of American business? I will say frankly that I do not think all sectors of American business
and

industry have in recent years made the contribution to our foreign trade that they are capable of making.

We are emerging from a unique period during most of which American industry has had little serious competition. In fact, from 1940 until about 1954, American industry enjoyed what amounted to almost total and absolute protection. The outbreak of the war in 1939 eliminated our two great industrial competitors--Western Europe and Japan. And, after the war, as the shattered industries of Europe and Japan were gradually rebuilt, their industrial output went largely into the local European and Asian home markets to fill the needs caused by the privations of the war. Thus we had little or no competition in the United States or third-country markets.

That world of little or no competition is gone forever. We must recognize that in the period ahead we will have to face even tougher competition. Our Government cannot do the job alone. If our economy is not to stagnate and wither, American business will have to be more imaginative and active in seeking ways to meet competition and in developing new markets. It will require a real merchandising effort of a kind few American firms have attempted in Europe, because in the past the potential of limited national markets did not seem to justify the trouble. If we are to succeed, it is imperative that American business devote the same imagination, boldness and skill to foreign markets that it does to our great domestic market.

Let me just cite briefly one or two cases that illustrate what I mean when I say American business can do more abroad. During extensive travels in the Middle East and Asia during the period from 1953 to 1961, I often encountered hard-hitting market survey teams from Britain, Germany, Italy, France and the Low Countries. They were studying detailed problems involved in entering the market, such as costs, method of market penetration, servicing, training of local personnel, language problems, taxes, local advertising methods and so forth.

Now during these visits I also encountered some American businessmen but they were not there to capture a market. When asked about the prospects, some replied to me that there were sales possibilities but that it would take a good deal of work and hardly seemed worthwhile since the market was not large. Some also observed that American products were superior to others and sold themselves. Happily, this philosophy is not embraced by the American business community as a whole, for if it were, I shudder to think of what would happen to our balance of payments problem and our economy.

I remember during one visit to a newly-independent country, a foreign Ambassador approached me, saying his fine American car would not run. He had cabled the factory for parts and pertinent technical instructions which the local mechanics could understand. The reply said there were no manuals or technical instructions, except in English, but that if he would ship his car to a third country some hundreds of miles away, it could be repaired there. In this same country, European automobile manufacturers had published instruction books in the local language and operated maintenance and repair facilities manned by local personnel instructed and trained in Europe.

American business is also sometimes distressingly deficient in replying promptly and helpfully to business inquiries from abroad, particularly those written in foreign languages. During the past year, I have had

complaints from Belgian companies that wish to purchase American products, that their letters of inquiry and follow-up letters to American companies remain unanswered. When a foreign company wishing to purchase American products does not even receive the courtesy of a reply, it turns to a non-U.S. source. Even worse, it causes extreme irritation and resentment that gives the entire American business world a reputation of lack of interest, lack of efficiency or rudeness. This affects adversely American business as a whole and does real damage to our export program. Conversely, a friendly, helpful and prompt reply to foreign inquiries, even if there is no possibility of immediate sales, is a worthwhile investment for furthering American exports. And, if an American company is not itself interested, it might be able to suggest another American firm so that we rather than a foreign company will make the sale.

Before closing, I would like to say a brief word about different ways to penetrate foreign markets. These include selling products abroad through import-export houses; establishing foreign sales branches with full-time personnel, warehouses, and service staffs; setting up manufacturing facilities abroad through an entirely U.S. owned subsidiary branch or in partnership with local businessmen; or by licensing arrangement which provide a steady income from royalties with little capital outlay. Which method to choose must be carefully studied and selected on a case by case basis. And, of course, one of the keys to success in selling abroad is to offer what our foreign friends want and to present it in a way that appeals, rather than trying to sell them what we want in the United States. We must pay much greater attention to tailoring products designed expressly for the tastes of our European or other foreign consumers. And we must present them in ways that will increase their sales appeal such as labeling them in the language of the country.

Business abroad involves many corporate and other complex local problems. They require not only the best corporate planning available but also the very best men you can get to live and work abroad. It is no longer sufficient for an American business representative abroad to have only mastery of his product or its production. He must be sensitive to the political and psychological environment in which he is operating. He must be tactful as well as firm. He must understand that the method of approach and of doing business is often different abroad than in the United States.

Let me illustrate this point. Recently a very tough-minded and successful European businessman, commenting on a large American company that started operating in Europe last year, observed that it was not doing nearly as well as it could because "the American manager, while having admirable technical and professional qualifications, talked to his European business associates as if he were an Army Colonel and they were Lieutenants. This is resented and so he doesn't get the cooperation he otherwise would receive."

To succeed today an American businessman abroad must be an understanding and respected member of the foreign community without losing his integrity as an American. He must be able to pass Dale Carnegie's course with a good mark.

American business also has a unique role in seeing to it that American products are competitive, quality-wise, in world markets. Your research and development programs are more important than ever because the Common Market has a much larger pool of technically and scientifically skilled talent that in the future will make an increasing contribution to European industrial products and techniques.

American business, with active Government understanding and encouragement, must also do a big job in terms of plant modernization. We were fortunate in World War II not to have our homes and factories bombed out. However, the great war damage in Western Europe and Japan has led to the construction of a vast amount of new industrial capacity in Japan and Europe, and these fine new plants are often more modern than our own.

VIII

Conclusion

In conclusion, let me say again that while the challenge we face is immense, I am not pessimistic. We will, of course, be up against much stronger competition from our European friends. However, I for one believe that competition brings advantages -- not disadvantages. Certainly our country has grown strong as our industries have vied with each other in the keenest kind of competitive effort within our free enterprise system.

We also must expect some very tough trade negotiations with the Common Market which holds a very strong hand. But we also have good cards for Europe needs us every bit as much as we need her. Indeed in the fields of both trade and military security on which Europe's well being and survival so largely depend, the United States is an essential partner.

I am convinced that we have the capability of continuing to compete successfully in the Common Market and other world markets if there is the will and energy and if we all do our part. Therefore, let each of us -- government, labor, and business -- face up to the challenge and attack our problems with the same guts, the same resolution, and the same imagination as our forefathers who made our country the great country that it is today.

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